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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 6907
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RUEHRC/USDA FAS WASHDC 4213
RUEAIIA/CIA WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEHBUL/AMEMBASSY KABUL 8565
RUEHDO/AMEMBASSY DOHA 1525
RUEHNE/AMEMBASSY NEW DELHI 3240
RUEHKP/AMCONSUL KARACHI 9713
RUEHLH/AMCONSUL LAHORE 5458
RUEHPW/AMCONSUL PESHAWAR 4197

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SENSITIVE
SIPDIS

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TAGS: [EFIN](#) [ETRD](#) [ECON](#) [PREL](#) [PK](#)
SUBJECT: PAKISTANI RUPEE CONTINUES TO FALL

REF: A) Islamabad 1723
B) Islamabad 1758

¶1. (SBU) Summary: Pakistan's growing current account deficit and increasing uncertainty over the future of the government coalition are causing the rupee to fall against the dollar. The rupee closed at record lows against the dollar again on May 8, rebounding only slightly on May 9. The State Bank of Pakistan (SBP) has warned that foreign exchange companies must comply with foreign exchange regulations or face administrative actions. The SBP is also taking steps to maintain a low spread between inter-bank and open market exchange rates. The Government of Pakistan (GOP) is expecting an estimated USD two billion in direct budgetary support and privatization receipts by the June 30 end of the current fiscal year which should put a temporary halt on the rupee's decline against the dollar. End summary.

¶2. (SBU) The rupee rebounded against the dollar on May 9, closing at 66.5/67 (buying/selling) rupees per dollar in the inter-bank market. The rupee hit an all-time low against the dollar on May 8, falling to 67.10/67.15 (buying/selling). The rupee also reached new lows in the open market, closing at 67.90/68 (buying/selling) on May 9. Currency traders report that inter-day trading in the open market reached 70 rupees per dollar. Since the beginning of 2008, the rupee has lost nearly 8.9 percent of its value against the dollar. Importers are reportedly buying dollars in anticipation that the rupee will continue to fall against the dollar, increasing dollar demand and adding downward pressure on the rupee/dollar exchange rate.

¶3. (SBU) In a May 8 meeting with State Bank of Pakistan-licensed exchange companies, State Bank of Pakistan (SBP) Governor Dr. Shamshad Akhtar warned that exchange companies run the risk of having their licenses revoked if they do not comply with foreign exchange regulations. Governor Akhtar added that the State Bank of Pakistan will prohibit the export of foreign currency bills if the spread between the open market and inter-bank rupee-dollar exchange rates exceeds 50/60 paisas. The State Bank has also agreed to temporarily place dollars with exchange companies to lower the spread between the open market and inter-bank market. Once the rupee stabilizes sufficiently, the SPB plans to recall these dollars. The SPB has refused to disclose figures on the amount of dollars sold in the inter-bank market or placed with the foreign exchange companies.

¶4. (SBU) The SBP, foreign exchange companies and banking analysts have all commented that the Finance Minister's stark and possibly

overstated description of Pakistan's fiscal crisis is also a factor in the rupee's fall. Governor Akhtar urged banks and foreign exchange brokers work with the SBP to avoid rupee speculation. She also encouraged the foreign exchange companies not to hold remittances in overseas accounts. If the exchange companies do not abide by these guidelines, stricter foreign currency controls may be possible.

15. (SBU) Until recently, the SBP maintained a 62 rupee per dollar inter-bank market exchange rate with the open market rate spread normally within a 30 to 40 paisa band. Foreign exchange companies believe that the GOP agreed to weaken the rupee on the recommendation of the IMF in order to control the country's widening trade and current account deficits and to reflect differentials between Pakistan's rate of inflation and that of its trading partners. Currency brokers also believe that investors are shifting funds from equity markets to the foreign currency market in an attempt to maximize profits. One trader even joked that if the rupee continues to drop, even housewives will jump on the dollar buying bandwagon.

16. (SBU) The Government of Pakistan (GOP) is expecting USD two billion in direct budgetary support and privatization receipts before the June 30 end of the current fiscal year. The Asian Development Bank will provide at least USD 250 million in budgetary support. The GOP will reportedly earn around USD 680 million from the sale of shares of the government-owned Muslim Commercial Bank to Malaysia's Maybank.

17. (SBU) Comment: The rupee's recent and rapid depreciation against

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the dollar should not come as a surprise as Pakistan's economic fundamentals continue to deteriorate rapidly. Expected inflows may temporarily halt the rupee's decline against the dollar. However, the State Bank of Pakistan can only slow down the rupee's depreciation. The GOP faces spiraling current account and fiscal deficits, declining foreign exchange reserves, rising inflation, steadily increasing international oil prices and inadequate energy supplies. Uncertainty surrounding the future of the Pakistan Peoples Party (PPP) and Pakistan Muslim League-Nawaz (PML-N) coalition government is also contributing to the lack of confidence surrounding the rupee. Until the country's fundamental economic health is addressed and investors see some increased measure of continued political stability, the rupee will likely continue to lose ground against world currencies. End Comment.

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